

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7315**

**BILL NUMBER:** SB 564

**NOTE PREPARED:** Jan 17, 2007

**BILL AMENDED:**

**SUBJECT:** Taxation of Diesel and Biodiesel.

**FIRST AUTHOR:** Sen. Weatherwax

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** *Exemption Verification:* This bill provides that a retail merchant may verify an exempt sale of tangible personal property used or consumed in providing public transportation by obtaining certain information from the purchaser.

*Blended Biodiesel Credit:* The bill also increases the total amount of the blended biodiesel income tax credit that may be awarded by the Indiana Economic Development Corporation from \$1,000,000 to \$2,000,000.

*Farm Vehicle Exemption:* The bill exempts farm vehicles from the Special Fuel Tax.

**Effective Date:** January 1, 2007 (retroactive); July 1, 2007.

**Explanation of State Expenditures:** This bill will cause an indeterminable increase in administrative costs for the Department of State Revenue (DOR) and the Indiana Economic Development Corporation (IEDC).

The DOR will have to amend forms, adopt rules, and change administrative procedures to implement all of the provisions of this bill. It is estimated that these provisions could be implemented through the use of existing staff and resources.

The IEDC will only be affected by the provision of the bill that increases the total amount of the blended biodiesel income tax credit that may be awarded from \$1,000,000 to \$2,000,000. It is estimated that the IEDC could review and certify applications for more of these credits through the use of existing staff and resources.

**Explanation of State Revenues:** *Exemption Verification:* This provision of the bill is expected to have a

minimal fiscal impact on Sales and Use Tax collections. This bill provides that a retail merchant may verify an exempt sale of tangible personal property used or consumed in providing public transportation by obtaining certain information from the purchaser. The bill also provides that if a retail merchant previously sold tangible personal property to a person under this exemption for property consumed in providing public transportation and provides proof as previously contained in DOR form ST-135, the retail merchant may request a refund or satisfaction of outstanding liability from the DOR.

The impact of these changes will ultimately be determined by the actions of the DOR, retail merchants, and purchasers. These provisions do no change the number of exempt purchases that could occur, but rather, any impact will only be to the extent that these provisions allow purchasers to more easily obtain the exemption.

*Blended Biodiesel Credit:* This bill could result in a decrease of up to \$1 M in state tax collections by increasing the total amount of the blended biodiesel tax credits that may be awarded by the IEDC from \$1 M to \$2 M. This credit may be applied against a taxpayer's Sales and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. The credit is awarded in an amount equal to \$0.01 per gallon of blended biodiesel sold by the Indiana retailer that has been certified to receive by the IEDC.

*Farm Vehicle Exemption:* The decrease in revenue by exempting certain farm vehicles from the Special Fuel Tax is indeterminable. The amount of the decrease will ultimately depend upon the number of farm vehicles that qualify for the exemption and the aggregate amount of special fuel used by these vehicles.

*Background:* Revenue from the corporate AGI tax, the Insurance Premiums Tax, the Financial Institutions Tax, and Utility Receipts Tax is deposited in the state General Fund.

The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

The first \$25 M in Special Fuel Tax revenue is distributed 60% to local units and 40% to the Department of Transportation. The remainder is deposited 75% to the Motor Vehicle Highway Account (MVHA) and 25% to the Highway, Road, and Street Fund (HRSF).

The DOR in *Information Bulletin #15 (November 2006)* interpreted the definition of special fuel in IC 6-6-2.5-22 to "include those fuels commonly known as diesel fuel, biodiesel, LPG, propane, compressed natural gas and compressed methane. Fuels which are not gasoline by statute will be considered a special fuel."

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Farm Vehicle Exemption:* This bill will decrease local revenues to the extent there is a decrease in Special Fuel Tax collections. 60% of the Special Fuel Tax collections are distributed to local units, as well as a portion of the distributions from this tax going through the MVHA and the HRSF.

**State Agencies Affected:** Department of State Revenue; Indiana Economic Development Corporation;

Department of Transportation.

**Local Agencies Affected:** Any units receiving Special Fuel Tax distributions.

**Information Sources:**

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